



OFFICE OF PUBLIC INSTRUCTION

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Linda McCulloch
Superintendent

March 31, 2005

TO: School Administrators and Business Managers

FROM: Jim Oberembt
Fiscal Officer

RE: Application for FY2006 Indirect Cost Rate

Enclosed are forms to request an indirect cost rate for fiscal year 2005-2006. Completion of this form is **optional**. The form is required only if your district plans to charge indirect costs (e.g., general administration, accounting services, and personnel services) to federal and state grant awards using an indirect cost rate. Application for an indirect cost rate **does not** increase the amount of your federal grant awards.

There are no changes between FY2005 and FY2006.

The "preliminary rate" shown on Schedule A was calculated using expenditures reported on your FY04 Trustees' Financial Summary. You may either request to use this preliminary rate, or submit an adjusted rate (see enclosed instructions).

If your elementary and high school districts will be submitting separate grant applications as separate prime applicants, each district must apply for its own indirect cost rate. Unless otherwise restricted by the terms of a grant, the indirect cost rate approved by OPI will apply to all of your federal and state grants, regardless of whether the grant is administered by OPI, another state agency, or received directly from a federal agency.

Reminders for FY 2005-2006:

Fixed Rate with Carry Forward Adjustment and Termination/Severance Pay

The U.S. Department of Education (USDE) had two concerns which were addressed during the renewal of our indirect cost agreement in 2002. The first concern was use of predetermined rates and the second was termination/severance pay. The USDE requested we use a fixed rate with carry forward adjustment instead of the predetermined rate method. The new method accounts for timing differences in the costs used to determine an indirect cost rate. In the past, we used costs from two preceding fiscal years to determine the rate for the current year. No adjustment was made when actual costs became known. In the future, we will adjust the rate when actual costs are known and carry the adjustment forward in the current indirect cost rate calculation. OMB Circular A-87 requires termination and severance pay be paid as general administrative costs and not as a direct cost to any grant. Note this change is not limited to school district personnel paid from federal funds. Any termination and severance pay should be reclassified from direct costs to indirect costs. Please see the enclosed instructions to reclassify these expenditures.

Grant Writer Costs

OMB Circular A-87 requires grant writing costs charged directly to a grant be approved IN ADVANCE by the granting agency. Otherwise, grant writing costs must be included in the indirect cost calculation. This means a grant writer may be paid from the General Fund and then shown as an indirect cost when the indirect cost rate is calculated. As indirect costs are recovered during the grant period, a grant writer may be paid from these recoveries. Grant writers may not receive a percentage fee or flat fee DIRECTLY from a grant (i.e. 5% of the grant award) unless prior approval has been given by the granting agency.

Cost of Superintendent's Office for Districts with less than 2,600 students

A portion of the cost of the Superintendent's Office for districts with less than 2600 students may be classified as indirect costs. The Superintendent will have to keep a time sheet for the last week of the old quarter and first week of the new quarter to estimate how much time is spent on indirect activities. The percent of time spent on indirect activities may be used to prorate up to 30% the cost of the Superintendent's office as indirect costs.

Building Maintenance Costs

A small portion of building operation and maintenance cost related to indirect activities can be classified as an indirect cost. School districts must conduct a study or other measured basis such as square feet occupied by indirect functions as it relates to the total square feet of space used by the school district.

Audits and Insurance Costs

According to the federal Single Audit Act, auditing costs may be reclassified as indirect only if the district is spending more than \$500,000 in federal funds. U.S. Dept of Education regulations allow all employee benefits related to indirect functions and property and liability insurance to be considered as indirect costs.

Rates approved in the middle of a grant period

An Indirect Cost Rate approved in the middle of a grant period may only be applied to expenditures made after the approval date of the rate. An indirect cost rate may not be applied retroactively.

By May 31, 2005, please send the enclosed Certification form signed by the school board chairperson or superintendent and a copy of Schedule A to our office. Include any worksheets, schedules, and other supporting documentation, which might expedite the approval of your proposal. The completed application should be sent to:

School Accounting and Budgeting Division
Office of Public Instruction
P.O. Box 202501
Helena, MT 59620-2501

If you have any questions or need additional information, please call me at 444-1257. My email address is joberembt@mt.gov. The fax number is 444-0509.